

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

BALLY MANUFACTURING CORPORATION,)
)
Plaintiff,)
)
V.)
)
D. GOTTLIEB & CO.,)
WILLIAMS ELECTRONICS, INC.)
and)
ROCKWELL INTERNATIONAL CORPORATION,)
)
Defendants.)

CIVIL ACTION

No. 78 C 2246

DOCKETED

MAR 08 1984

Judge John F. Grady

DEFENDANTS' MOTION TO DISMISS OR FOR JUDGMENT
ON THE RECORD OR IN THE ALTERNATIVE MOTION TO STRIKE
EVIDENCE AND PIERCE ATTORNEY-CLIENT PRIVILEGE

Defendants Gottlieb, Williams and Rockwell respectfully move the Court for extraordinary relief in this case because of the inequitable conduct and gross negligence in Bally's having made repeated misstatements both to the Patent Office and to this Court concerning the microprocessor controlled Flicker machine. Specifically Defendants move that this Court dismiss Bally's cause of action for patent infringement or render judgment on the record in favor of Defendants. While the Court may view dismissal or judgment as summary and precipitous, a patentee's inequitable conduct and gross negligence have long been recognized as a basis for declaring a patent unenforceable. At the very least,

Defendants request a full evidentiary hearing on this issue to advise the Court on the extent and effect of the false evidence adduced by Bally.

In any case defendants respectfully request that this Court strike and disregard all evidence regarding the converted Flicker machine (PX 333), its circuitry and its software, and that the Court pierce the attorney-client and work product privileges with respect to matters involving the converted Flicker machine, its software, its components and the documents supposedly reflecting any aspect of the converted Flicker machine.

The conduct of Bally has been, at the least, inexcusably negligent. Both before the Patent Office and before this Court Bally adduced false testimony. Either that testimony was knowingly false or it was adduced without regard for its truth or falsity. Such conduct justifies dismissal of this case and judgment rendered against Plaintiff.

Attorney fees under 35 U.S.C. 284 are requested.

I. Statement of Facts

On Thursday, March 1, 1984, counsel for Defendants were informed by Keith Bode of Jenner & Block, trial counsel for Bally, that attorneys and technicians of Bally had grossly and secretly modified the microprocessor controlled Flicker machine which is PX 333 in this case.

By the following day, Mr. Bode and Mr. Tone informed counsel for Defendants (1) that the inoperative Flicker game and various components of the game, removed from the Court over Defendants' objection, would be returned to the custody of the court, an action that Defendants have repeatedly demanded; (2) that Bally was preparing a statement to the court of various "erroneous" evidence that had been adduced through Bally witnesses at trial, a fact that Defendants had called to Bally's attention weeks earlier; and (3) that Bally had investigated and was prepared to assure Defendants and the Court that no fraud had occurred, and none of the misstatements were "material".

The false evidence in this case is being presented to this Court years after the falsehoods commenced and weeks after Defendants generally informed Bally's counsel of their existence. As a result of Bally's tampering, the converted Flicker machine is now inoperative, and cross-examination of an operative game has been frustrated.

The false testimony adduced during the trial of this case constitutes the last in a litany of falsehoods which has extended through the more than five years of reissue proceedings in the Patent Office. Much of the testimony and affidavit evidence has been directed to establishing a critical "reduction to practice" of the Flicker game on September 26, 1974. It now appears:

- (1) The software (PX 436) said to be in the converted Flicker game (PX333) is not in fact the software in the game, and the software of PX 436 is inoperative.
- (2) The software in the converted Flicker game (PX 333) is not the software filed in the Patent Office; the software filed in the Patent Office is inoperative.
- (3) A number of circuit components in the Flicker game had not yet been manufactured as of September 26, 1974; and hence the machine demonstrated to the court could not have been in existence in September, 1974; and
- (4) The converted Flicker game (PX 333) does not conform to the circuits of the drawings said to represent the game.

The false or erroneous statements about Flicker did not begin with this trial. The court is respectfully requested to consider the following sworn statements to the Patent Office:

Frederiksen Affidavit of March 2, 1980 (PX 1: 396-307)

11. That the aforesaid modified Flicker pinball machine as demonstrated on September 26, 1974 was programmed substantially in accordance with the program listing submitted by us as part of the original application which issued as U.S. Patent No. 4,093,232, and on which the present reissue application is based....

12. That the aforesaid modified Flicker pinball machine was actually reduced to practice at least by September 26, 1974 by constructing the machine as illustrated in Exhibits AS through AX, X and Y [Court Exhibits PX-49-53] hereof and operating it as a pinball machine in the same way that pinball machines normally operate.

In the Patent Office paper submitting the Frederiksen affidavit, Bally alleged that the Flicker pinball machine was:

"in all material respects still in the same condition as it was during the demonstration to Bally on September 26, 1974, and its construction is given in greater detail by the [affidavit of Frederiksen quoted above]."

Nutting Affidavit of May 9, 1980 (PX 1: 593-1)

4. That to the best of my knowledge and belief, all of the statements made in the Affidavit [of Frederiksen above] are true and correct.

Frederiksen Affidavit of June 3, 1981 (PX 1: 920-14)

35. . . . I generated PROM's which contained code representative of my computer program for the converted Flicker pinball machine and tested them by plugging them into the Bally Brain and playing the converted Flicker pinball machine, which was operational by the end of August 1974.

In fact, the PROMS containing the essential software were not in existence at that time. In fact the Flicker game demonstrated to the court could not have been in the condition of the converted Flicker game in September 1974, as the game would have been inoperative with the software of PX 436.

Given the "errors" admitted by Bally, there is no evidence of what the software was in converted Flicker, what the circuitry was or what the components were in September 1974. Nutting and Frederiksen gave detailed testimony about conception drawings of a pinball game with a matrix drawn on a blackboard in late 1973, but have never recalled all the actual changes made to the converted Flicker game.

Defendants are understandably incredulous.

The misstatements do not end there. At p. 350 of PX 1 Bally alleged to the Patent Office that

"coins were inserted in the machine to initiate operation. . . [and] the microprocessor controlled Flicker duplicated the operational characteristics of the standard electromechanical Flicker so well"

In fact, Defendants do not believe that the electronic Flicker in the courtroom, which was undoubtedly updated from September 1974, had this ability to duplicate these functions of the electromechanical Flicker game.

All through the Patent Office proceedings Bally made representations to avoid the Atari prior art, such as:

Also it is typical in pinball machines to find the occurrence of stuck switches, i.e., switches which for one reason or another stay in a closed position, and it is absolutely essential that this condition not render the pinball machine inoperable. (PX 1, p. 574; see also p. 907).

. . . .

[If bombing occurs [due to stuck switches].
. . it shows lack of reduction to practice
(PX 1, p. 336)

. . . .

At trial Plaintiff's expert, Dr. Schoeffler, continued, at pp. 881-882 of the Trial Transcript, this theme of the criticality of a practical pinball machine to operate even in the presence of stuck switches:

. . . the microcomputer has a real time obligation to do error recovery. If a switch gets stuck, it must not just shut down the game and . . . It's got to keep going, possibly with a demoted degree of play.

Defendants obtained admissions from Mr. Frederiksen that a stuck switch could bomb the converted Flicker game. Dr. Schoeffler confirmed this aspect of Flicker. Defendants were preparing to graphically demonstrate to the court that Flicker bombed due to stuck switches and thus could not meet Plaintiffs own requisite for a reduction to practice. That is impossible now that Flicker is inoperative.

Bally has identified PX 30 (and PX 433) as the program in Flicker both presently and as of September 1974 at transcript pages 253, 852, 950, 955, 956, 957, 1106 and 1121. That is untrue. Moreover it appears PX 30 is incomplete and inoperative. Circuit drawings have been falsely or erroneously identified as showing the Flicker game at transcript pages 246, 247, 248, 249, 1106, 1110, 1114, 1126, 1127, and 1165-66.

There are numerous other discrepancies. The upshot of all of them is that BALLY HAS ADDUCED EVIDENCE OVER A PERIOD OF YEARS IN ABSOLUTE DISREGARD OF FACTS WHICH THEY HAD WITHIN THEIR EXCLUSIVE CONTROL. The falsehoods are not immaterial.

Bally may not walk away from such a history of false or erroneous evidence. The assemblage of evidence has been made by Bally to suit its own purposes. Bally has been in possession of the information which established this falsity but did nothing until confronted by Defendants.

Bally's present sincerity about correcting errors in evidence that it was caught presenting is hypocritical and incongruous.

II. Argument

A. Inequitable Conduct or Gross Negligence Provide a Basis for Striking Patent Appli- cations in the Patent Office and a Finding of Unenforceability in Litigation.

The standard in the Patent Office with respect to affidavit submissions was outlined in Norton v. Curtiss, 433 F.2d 779 (C.C.P.A. 1970). In that case "affirmative fraud" was defined as requiring a false statement of a material fact and an "intent to deceive or, at least, a state of mind so reckless as to the consequences that it is held the equivalent of intent."

Counsel for Bally indicate they intend to assert that none of these misrepresentations was material. The standard of materiality in the Patent Office was articulated by the Court of Appeals for the Federal Circuit in Rohm & Haas Co. v. Crystal Chemical Co., 722 F.2d 1556, 1557, (C.A.F.C. 1983):

"In contrast to cases where allegations of fraud are based in withholding prior art, there is no room to argue that submission of false affidavits is not material."

The affidavits submitted by Bally to the Patent Office succeeded in avoiding certain of the Atari prior art in the reissue proceeding, and as such, were clearly material.

A final example of Bally's lack of candor is reflected by the circumstances of this trial. Over Bally's resistance, the Court permitted Defendants to discover the software content of the Flicker machine. On January 18, 1984, that software printout was made available to both Plaintiff and Defendants.

within a day or two, Defendants' review of that material conclusively and clearly indicated that the software in the machine did not conform to that filed by Bally in the Patent Office.

Six weeks after inspection, after Defendants called the existence of error to Bally's attention, and after further tampering with the Flicker machine to render it inoperative, Bally comes forward to call the errors to the attention of the Court, and argues in ex parte fashion that the "errors" are unintentional and non-material.

Bally's conduct has been inexcusable. "[A]n acceptable explanation may be plausible when each small point is isolated from the others, but when the picture is viewed in its entirety" the conduct of Bally must be viewed as inequitable conduct as was the patentee's conduct in Monolith Portland Midwest Co. v. Kansas Aluminum Chemical Corp., 407 F.2d 288, 295 (9th Cir. 1969).

As the court in SCM Corp. v. Radio Corp. of America (S.D.N.Y. 1970), 318 F.Supp. 433 held:

"No one can tell with certainty what would have happened if RCA had dealt fairly with the Patent Office. But the fact remains that RCA did withhold relevant facts. Which side in this litigation is to suffer from this conduct? It is appropriate that it should be RCA who suffers. Any other rule would fail adequately to discourage conduct of this sort merely because of the circumstance, which must be present in many cases, that it turns out to be impracticable to ascertain what the Examiner, who did not know the true facts, would have done if he had known them.

The evidence here justifies the conclusion that this court should not enforce a patent obtained under these circumstances. I so hold."

Who should suffer from Bally's improper conduct? It should be Bally, and this case should be dismissed for inequitable conduct.

The United States Supreme Court has dealt strictly with evidence tampered with by a patentee in patent litigation. In reversing the Circuit Court and reinstating the denial of relief found by the District Court, the Court in Hazel-Atlas Glass Co. v. Hartford-Empire Co., 322 U.S. 238 (1949), found that the tampering with the evidence amounted to fraud. The Hazel-Atlas Court stated at page 246:

"This matter does not concern only private parties. There are issues of great moment to the public in a patent suit. Mercoid Corporation v. Mid-Continent Investment Co., 320 U.S. 661; Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488. Furthermore, tampering with the administration of justice in the manner indisputably shown here involves far more than an injury to a single litigant. It is a wrong against the institutions in which fraud cannot complacently be tolerated consistently with the good order of society."

The falsified evidence in Hazel-Atlas was nowhere close to being as material as the reduction-to-practice evidence falsified by Bally in the Patent Office and in the present suit. Without a September, 1974 date for reduction to practice, a totally new set of prior art considerations arises. After nearly six years, it is too late and too inequitable for Bally to be allowed to

correct the falsified evidence. Judgment of patent unenforceability should be rendered on the present record against Plaintiff.

B. A Prima Facie Showing Of Inequitable Conduct Has Been Made -- If The Case Is To Continue, All Trial Evidence Concerning The Converted Flicker (DX 333) Should Be Striken And Defendants Allowed To Discover All Bally Attorney-Client Communications In Order Not Only To Develop The Totality Of The Inequitable Conduct But To Develop The Totality Of The Gross Negligence In Failing To Reasonably Investigate The Truth Beforehand.

i. All Reduction to Practice Evidence
Should be Stricken.

Defendants do not believe that they should be put to the continued expense of trial in view of the conduct by Bally. If, however, trial is to continue, Bally should not be allowed to benefit from its misrepresentations as to the hardware, software and operational condition of the alleged invention in September, 1974, or of the alleged invention of the patent in suit by reference to the modified Flicker machine (DX 333), placed into evidence by Bally.

Defendants cannot now cross-examine the converted Flicker to graphically show how it fails Bally's own reduction-to-practice standard due to bombing caused by stuck switches. Bally received the benefits of an operational demonstrative exhibit and then tampered with the exhibit to render it inoperative. Bally thus foreclosed Defendants' right to cross-

examine the operative exhibit. The right to cross-examine is a precondition to the admission into evidence.

Further, now that Defendants have pointed out, and Bally has conceded, that the converted Flicker is not in the same condition as it was in September 1974 and that no contemporaneous documents exist showing the condition of the Flicker in September, 1974, Defendants cannot effectively cross-examine as to the exact condition of the alleged reduction to practice in 1974. Only Plaintiff's employees and those under its control, all of whom are biased and primed with self-serving testimony, remain to try to resurrect Plaintiff's crumbling story.

The fundamentals of evidence thus demands that all evidence of record concerning the structure, operation and characteristics of the alleged invention prior to May 13, 1975 (the filing date of the patent application) be stricken.

ii. Bally's Attorney-Client Privilege
Should Be Pierced -- Not All
Misrepresentations Have Been
Disclosed By Bally.

Defendants have made a prima facie showing of Bally's inequitable conduct in persisting for five years in the Patent Office with false evidence of utmost materiality and then continuing with the misrepresentation before the Court. But, even though Bally has disclosed to the Court a total of sixteen instances of false evidence, six of which admittedly meant that

the converted Flicker in September, 1974 could not have been operational as Bally represented, not all false evidence has been disclosed.

Through extensive study and analysis, Defendants have uncovered other equally grievous examples of false testimony, both in the Patent Office and before the Court, not disclosed by Bally to the Court. Defendants need full discovery of the awareness by Bally, its employees and attorneys, of the totality of false testimony. Or, if Bally, its employees and its attorneys were not aware of the false testimony, Defendants need full discovery of Bally's efforts to make reasonable investigation prior to asserting the false evidence.

Bally's burden to reasonably investigate was high, especially in the Patent Office where the reissue proceeding was ex parte. Kingsland v. Dorsey, 338 U.S. 318 (1944). It was equally high before the Court, where Bally undertook the responsibility to restore a machine allegedly nearly ten years old and then proceeded to adduce testimony that the restoration was faithful to the alleged 1974 design. This is especially so where, as a precondition to trial, Bally conducted an extensive reissue proceeding which provided ample opportunity to investigate the truth of its evidence.

Under those circumstances, any claim of attorney-client privilege should be pierced. Defendants cannot proceed

to develop the totality of the misrepresentations, both known misrepresentations and those resulting from the gross negligence of inadequate prior investigation, without full discovery. This includes discovery of all communications between Bally and its employees and attorneys.

Bally no longer can lay claim to an attorney-client privilege regarding these matters. A prima facie showing of fraud in patent matters pierces the attorney-client privilege. Natta v. Zletz, 418 F.2d 633 (7th Cir. 1969); American Optical Corp. v. U.S., 179 U.S.P.Q. 682 (Ct. Cl. 1973). Defendants have made the requisite showing. Discovery should be had as to all of Bally's attorney-client communications concerning the converted Flicker and its status from 1974 to present.

III. Conclusion

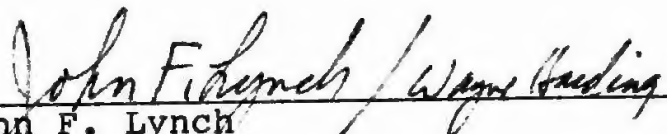
This case should not proceed on the merits on March 12, 1984. In lieu of the years of false evidence in the Patent Office and the false evidence introduced at trial, the case should either be dismissed with prejudice or concluded with judgment on the record against Plaintiff. It is too late and too inequitable for Bally to patch-up and resurrect its story.

Alternatively, all evidence to date concerning the converted Flicker game and its connection to the alleged invention of the patent in suit should be stricken. Discovery

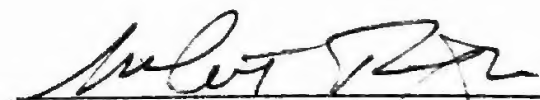
should proceed as to both: (1) Bally's knowledge of the false evidence and (2) Bally's gross negligence in failing to adequately investigate the truth, especially in light of the five-year reissue proceeding.

Reasonable attorney fees under 35 U.S.C. 284 should be awarded.

Respectfully submitted,


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